MANUFACTURERS HANOVER

5/27/87 #5350-2

Financial Digest

Volume XXIV, Number 11 Friday, May 22, 1987

Analysis of Business Trends Plus Selected Financial Indicators

Small Businesses . . .

This month, the nation once again honors its entrepreneurial spirit with the celebration of Small Business Week. For seven days, beginning May 10, attention was given to the establishments that dominate our economy–and our lives–every day of the year. Small companies are deeply rooted in every local community and neighborhood. Small business owners and entrepreneurs are among the most dynamic and innovative leaders of the business community. They develop new products and services and provide new jobs, technological innovations, managerial talent, new skills and training. Their willingness to confront uncertainty with creativity and determination to succeed gives the United States an economic vitality no other country can claim.

One example of how an economy which is dominated by small businesses can prosper is Long Island, a suburb of New York City. Companies which employ less than 100 people now comprise 98.5 percent of all private establishments on Long Island, providing three out of every five jobs. These companies have been the main driving force behind the Island's rapidly growing economy and they generated the preponderance of employment growth. During the 1980s, companies with less than 100 employees increased their payrolls by more than 23 percent, while larger firms boosted theirs by less than 16 percent. At the same time, small businesses provided the largest share of the new jobs generated in the private sector, accounting for 64 percent of the total.

Manufacturers Hanover Economics Department 17/270

. . . Propel Long Island's Economy . . .

Long Island is enjoying unparalleled economic performance. Job growth in the 1980s has been among the highest of the large employment centers in the nation. With more than 1.1 million jobs in 1986, nonagricultural employment entered 1987 at a record level. More than 34,500 new jobs were added to payrolls last year, with the gains posted across the entire employment spectrum.

Several sectors have made exceptional contributions to Long Island's growth. Buoyed by low interest rates, construction has outperformed all other categories in terms of employment growth. Construction companies employed more than 55,000 workers last year–an all-time high, and their share of total employment climbed from 3.8 percent just five years ago to five percent in 1986. Finance, insurance, and real estate also generated impressive gains. Last year a record 5,800 new jobs were added to this group's payroll, a gain of nearly nine percent. In fact, from 1970 to 1986, employment in this sector more than doubled, rising from 33,000 to 71,000. Fueled by the demands created by a growing and affluent population and a business community that has grown large enough to support a broad range of service industries, the service and trade categories also posted sizable gains.

Not all categories are strong. The Island's manufacturing sector is beginning to show signs of weakening. After surging by more than 9,000 jobs in 1984, gains in factory employment on Long Island have begun to taper off. Factories added 1,800 new workers in 1985, but only 800 new positions last year. The entire gain in factory employment last year took place in the durable goods sector. The largest advance was in the transportation equipment industry, with employment up by 4.2 percent. Nondurable goods manufacturing posted no change.

Although overall factory employment on Long Island posted only a modest gain of 0.5 percent last year, it nevertheless compares favorably with the performance of the manufacturing sector in other areas. For example, last year factory employment declined 0.7 percent nationally, 3.3 percent in New York State, and 4.1 percent in New York City.

Strong employment growth has helped to drive down the Island's unemployment rate to one of the lowest in the country. At a record low of 4.4 percent last year, it was considerably below the 7.0 percent jobless rate nationwide, 6.3 percent in New York State and 7.4 percent in neighboring New York City.

Copyright 1987 Manufacturers Hanover Corporation 270 Park Avenue, New York, NY 10017

. . . But Some Problems Have Emerged

Although a low unemployment rate is one enviable indicator of prosperity, the resulting shortages of both skilled and unskilled workers have begun to impose limits on Long Island's future economic growth. Already, buses transport workers from New York City's outer boroughs; entry-level and part-time employees are anxiously courted; and, in many cases, positions remain unfilled. The Island's labor squeeze prevents many businesses from operating efficiently, and competition for workers is raising labor costs.

The main reason for the inability of Long Island's companies to attract new employees is that many cannot afford to reside on the Island because of its high cost of living and high taxation. Although Long Island has a high per capita income, this figure overstates total buying power, because it ignores high local taxes. The tax burden disparity between Long Island and comparable areas appears to be widening as municipalities over-utilize property, sales, corporate, and income taxes as revenue sources. Last year, for example, county governments assured the public that property tax increases would not be necessary, but by yearend, however, both Nassau and Suffolk had raised property taxes.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/6/87)	159,831	+ 229	+ 3,853
New York City (5/13/87)	36,431	— 34	+ 1,955
Commercial Paper (5/13/87)	354,500	+ 556	+ 46,684

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/6/87)	278,496	+ 808	+17,085
New York City (5/13/87)	61,721	— 70	+ 3,634

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/6/87)	795,698	+ 745	+61,890
New York City (5/13/87)	175,980	— 3,009	+18,402

Financial Markets

	Friday 5/22/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.70%	— .37	— .63
180-Day Bills†	6.39	— .16	— .11
Longest Bills†	7.04	— .19	+ .37
Recent Issues:			
8S 5/31/89 (When Issued)	7.95	NA	
6 3/4S 3/31/91	8.36	+ .01	
8 1/2S 5/15/97	8.76	— .06	
8 3/4S 5/15/17	8.92	— .06	
Municipals:			
Bond Buyer—20 Bond Index* (5/21/87)	8.31%	+ .49	+ .53
Blue List Total ($ Million)	$1,810	+ $ 207	—$ 320
30-Day Visible Supply ($ Million)	$2,722	— $ 15	—$ 957
Total	$4,532	+ $ 192	—$1,277
Corporates:			
Moody's Aa Composite (5/21/87)	9.80%	+ .27	+ .28
30-Day Visible Supply ($ Million)	$3,393	— $1,090	+$ 101
Stocks:			
Dow-Jones Averages:			
Industrials	2,243.20	— 29.32	+419.91
Transportation	933.81	— 30.05	+135.85
Utilities	195.01	— 3.69	+ 10.66
65 Stocks	839.56	— 16.13	+132.85
N.Y.S.E. Composite Index	159.05	— 3.20	+ 20.17
N.Y.S.E. Avg. Daily Vol. for Week (000's)	171,542	— 1,016	+53,262

46% Taxable equivalent 15.39%. † Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/22/87	Week Ago
Overnight	6.50%	6.81%
1 month	7.06	7.13
3 month	7.44	7.44
6 month	7.75	7.69
1 year	8.31	8.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 yrs.)	9.06%	8.76%
Long Term (10 yrs.)	9.68	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/22/87)	Currency Per U.S. $	Week Ago
Canada	1.3466	1.3373
France	5.9420	5.9510
Germany	1.7748	1.7800
Italy	1285.00	1289.00
Japan	140.40	139.18
Mexico	1265.00	1235.00
Switzerland	1.4560	1.4610
U.K.*	1.6815	1.6802

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (5/22/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.0%	—7.3%

The lack of affordable housing also prevents many potential workers from accepting positions there. The rapidly growing economy and the desirability of living on the Island have led to sharp increases in housing prices. A typical 3-bedroom home in Nassau County was priced at $185,000 at the end of last year, compared with only $81,500 in Houston and $128,800 in Miami.

The high cost of living, high taxation and other costs of doing business on Long Island and shortages of both skilled and unskilled labor are only some of the problems that are starting to undercut the competitive position and profitability of Long Island businesses. The expanding economy has also put enormous demands on public transportation systems, energy and water supplies, garbage disposal and environmental resources. Unless addressed, these problems may well erode the business climate on Long Island, making it less competitive than other regions, thus forcing companies to relocate or expand elsewhere. Indeed, the Island's major employer recently announced plans to relocate parts of its Long Island-based operations to other areas of the U.S. where living costs—and wages—are much lower. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/20/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	222.261	– 4.719	+33.902
Loans to Depository Inst.	.891	+ .123	+ .043
Float	1.024	+ .806	+ .603
Total Reserve Bank Credit	239.656	– 5.627	+35.075
Treasury Deposits with Federal Reserve Banks	14.940	– 6.066	+10.968
Currency in Circulation	212.003	+ .258	+15.589
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	182.993	+ 3.789	+34.682
	5/20/87		
Member Bank Reserves:			
Total Reserves Held	57.276	– .855	+ 9.696
Excess (Deficiency)	1.221	+ .198	+ .533
Net Free Reserves	.667	+ .755	+ .235
Monetary Aggregates †		**% Change Since 3 Months Ago***	**% Change Since Year Ago**
M1 (5/11/87)	750.6	+ 11.0‡	+ 15.7‡
M2 (April '87)	2,839.0	+ 2.4	+ 8.2
M3 (April '87)	3,540.0	+ 2.8	+ 7.5
Domestic Nonfinancial Debt (4th Q'86)	7,680.6	+ 13.8	+ 12.1

*Seasonally adjusted annual rate.
‡Four-week moving average.
†Seasonally adjusted.

New York Money Market

Offering Rates 5/22/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.60%	6.15%	6.66%
* Federal Agencies	6.62	6.87	7.20
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.33	8.80	8.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.24	7.60	8.10

‡Finance Company Paper—Prime

5- 14 days	6.70%
15- 29 days	6.85
30- 59 days	6.85
60- 89 days	6.90
90-179 days	6.77
180-239 days	6.70
240-270 days	6.70

‡* Bankers' Acceptances

Jun.	7.00%
Jul.	7.05
Aug.	7.15
Sep.	7.20
Oct.	7.35
Nov.	7.35

‡Industrial Paper—Prime

30- 89 days	6.92%
90-120 days	7.05

†Federal Funds Effective Rate 6.75%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'87	$ 4,348r	$ 4,259	$ 4,149
Gross National Product (1982 Dollars)*	1st Q'87	$ 3,736r	$ 3,696	$ 3,656
Percent Change, Annual Rate	1st Q'87	4.4r	1.1	3.8
Change in Consumer Prices*	Apr '87n	4.8% (1)	4.8% (1)	– 3.6%
Change in Producer Prices*	Apr '87n	8.4%	4.8%	– 6.0%
Civilian Employment (Thousands of Persons)†	Apr '87	111,835	111,368	108,969
Unemployment as % of Civilian Labor Force†	Apr '87	6.3%	6.6%	7.1%
Personal Income*	Mar '87	$ 3,604	$ 3,599	$ 3,445
Leading Indicators Composite Index (1967=100)†	Mar '87	187.5	186.8	176.4
Industrial Production Index (1977=100) †	Apr '87n	126.3	126.8r	124.7
Net Change in Consumer Installment Credit †	Mar '87	–$ 0.06	$ 1.01	$ 2.39
U.S. Merchandise Trade Balance	Mar '87n	–$ 13.63	–$ 15.06r	–$ 12.18
Plant and Equipment Expenditures*	2nd Q'87	$396.22(a)	$384.02(a)	$375.92
Private Housing Starts (Thousands of Units)*	Apr '87n	1,699	1,749r	1,945
New Construction Expenditures*	Mar '87	$ 379.0	$ 383.9	$ 368.0
Total Business Inventories †	Mar '87n	$ 662.8	$ 660.5r	$ 653.9r
Total Business Sales †	Mar '87n	$ 446.7	$ 443.2r	$ 414.7r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

MANUFACTURERS HANOVER

Commitment

Great Cause, Great Golf!

The Manufacturers Hanover Westchester Classic
Westchester Country Club
Harrison, N.Y.
June 8-14, 1987

During the last 20 years, the Manufacturers Hanover Westchester Classic has raised over $10 million for the local hospitals. This is a tribute to all the volunteers, fans and corporations who continually support this great charitable event.

This year, defending champion Bob Tway and other top pros from the PGA Tour will compete for $600,000 in prize money.

Tickets are on sale at all the participating hospitals through June 5, thereafter at the gate. Use your Mastercard or Visa Card, by calling (212) 808-8519, Monday through Friday, 9 a.m. -5 p.m.

Spectators are urged to arrive early and be among the first 1500 each day to receive a free visor at the gate. **Make it a point to stop by the Expo '87 tent behind the 18th green.**

Benefiting Hospitals: United, Lawrence Auxiliary, New Rochelle, Northern Westchester, Phelps Memorial, St. Agnes, St. John's, St. Joseph's, St. Vincent's, Blythedale Children's, Greenwich, Mount Vernon, White Plains, Yonkers General, Peekskill and Putnam Hospital Center.

BUICK

NABISCO GRAND PRIX

©1987 Manufacturers Hanover. All Rights Reserved.

MANUFACTURERS HANOVER

Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

463 5883 C 939 SRI A0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
452 EASTWEST HIGHWAY
SUITE 800
WASHINGTON, DC 20014